

Majority of companies to adopt blanket 'inside IR35' structures

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The introduction of UK's IR35 Contractor tax reforms are set to permanently change company relationships with contractors and independent consultants.

With private companies coming under new IR35 regulations from April 2021, both contractors and clients are scrambling to adapt to these new regulations amidst adaptations to Covid-19 and new general regulations for EU trade following Brexit. According to a survey by Theta Global Advisors, more than two thirds (67%) of companies are moving to blanket 'inside IR35' structures as opposed to reviewing contracts individually.

This comes in stark contrast to contractor and client wants – only 10% of companies are satisfied with this blanket approach, and 90% stating that they would be keen to explore alternative resourcing models.



“Blanket 'inside IR35' approaches are already being deemed inappropriate before even coming into effect, likely to attract less skilled resources with lower quality experience to companies for their specific projects requiring unique expertise. This blanket approach does not even benefit those contractors attracted given reduced day rates which is the appeal of sacrificing the benefits of permanent employment for contract work,” said Patrick Hopkins, Associate Director at Theta Global Advisors.

This is expected to cause issues for contractors. More than half (57%) of contractors claim that IR35 and the last year have made them consider returning to permanent employment. Illustrating the impact of Brexit and Covid-19 on the contractor market, 57% of respondents said that they have seen their revenue reduced or even the termination and/or suspension of their existing contract(s).

“The combination of these tumultuous events with IR35 tax reform has left contractors reconsidering their positions as PSCs, instead considering a return to permanent employment, and for some, even early retirement. Given this rumbling IR35 debate continuing on in the background of cancelled or delayed contracts, new, innovative approaches are needed to resolve the challenges of companies to recruit specialist resources,” said Hopkins.

Among those seeking to continue life as a contractor, only “surprisingly low 19% of contractors” have taken out any insurance to cover them from a negative IR35 assessment, again highlighting the disparity and likely issues set to occur between contractors, clients, and companies upon the enforcement of these new IR35 regulations.

“The data from our research is indicative of a seismic shift in the relationship between companies and contractors following the reform of IR35 tax regulations,” Hopkins concluded.